

Statement of Lynn Boadwine

before the  
House Committee on Agriculture

July 31, 2006

Wall High School Auditorium

Wall, South Dakota

I appreciate the Committee's invitation for me to come here today and present my views on dairy in regards to 2007 Farm Bill. I am Lynn Boadwine, and I serve on the Board of Directors of Land O'Lakes.

I began farming 20 years ago with my parents. We've made many changes over the years. Currently, my wife, Trish, and I operate a 1,200-cow dairy and we farm 1,600 acres of cropland. Besides my service on the Land O'Lakes board, I am involved in several other organizations. I'm on the board of the South Dakota Animal Industry Board and the Dairy Development Board of the South Dakota Ag Producer Ventures. I've been involved with dairy promotion as a past chairman of my local America Dairy Association board.

I mentioned that I'm on the Board of Directors of Land O'Lakes. While Land O'Lakes has grown and become a cooperative with a national membership, it began here in the Midwest, and we are very proud of our cooperative's history and heritage. Producers who become members of Land O'Lakes do so because the company has an 85 year commitment to producing high quality dairy products from our milk.

Currently, action by USDA is threatening our investment in our cooperative's dairy processing. Actually, it would be more accurate to say inaction by USDA is the threat. Late last year, USDA received a petition to hold a hearing on the federal make allowance. Dairy processing plants, like those operated by my cooperative, are being squeezed by higher energy costs. The federal make allowance is out of step with the current costs of processing milk into cheese and other products. In response to the petition, USDA held a hearing early in 2006. We hoped and expected that they would issue a decision and revise the make allowance at the end of June. But that did not occur.

Instead, USDA announced that it was extending the period of time to receive proposals and data and that it would reopen the hearing in September. From our standpoint, this is an unacceptable delay. We strongly urge USDA to immediately issue an interim decision on the make allowance. This will provide some relief to our processing plants while the Department continues its deliberative process. We would welcome Congress' help in urging USDA to take this step.

Now, turning to the farm bill, I can tell you that Dairy farmers are in the process of working toward a consensus on the policy items we would like to see addressed in the 2007 Farm Bill, having used our Dairy Producer Conclave meetings earlier this year to obtain input from dairy producers across the country. My cooperative will be working with the National Milk Producers Federation to collaborate on this process as it continues.

My main message today is that there is strong consensus that the dairy portion of the next Farm Bill should contain some form of an economic safety net for dairy farmers. While we are open to further dialogue with members of this committee about the specific future form of that safety net, let me suggest a few general themes that are advisable, regardless of the final outcome of the Farm Bill's creation:

- The safety net should not discriminate between farmers of differing sizes;
- The safety net should not discriminate between farmers in different regions of the country;

- The safety net should not result in price enhancement, meaning that it should not be an inducement to produce additional milk. The government's safety net should be just that: a device that prevents a collapse of producer prices, without stimulating milk output or sending inappropriate signals to the marketplace.

Those are some of the important criteria that I feel should help guide the upcoming Farm Bill discussion. Our perspective at Land O'Lakes is that the farm bill dairy program ought to provide a safety net for producers and to promote the growth of the industry through a vigorous market. While the farm bill dairy program is important to America's dairy farmers, it's not the only program that exists to promote stability in dairy markets.

As you are aware, three years ago, dairy farmers created their own self-help economic program called Cooperatives Working Together. We have enjoyed above-average farm prices most of the time since 2003, thanks in part to CWT's impact in helping stabilize the balance between supply and demand.

But it's important to remind you that CWT was never intended to replace federal farm programs. Rather, our self-funded program is a supplement to what the government has in place. The dairy price support program is our current safety net, and CWT has helped us enhance prices above the very low price level maintained by the dairy price support program. The two complement each other, but CWT would be extremely difficult to sustain without knowing that the government also has a role to play in managing programs to help foster the health of our dairy industry.

That is particularly important where the Dairy Export Incentive Program is concerned. CWT has been busy lately helping export commercial sales of butter and cheese. But CWT's Export Assistance program is not intended to replace the Dairy Export Incentive Program that is also part of the current Farm Bill. So long as the WTO allows the use of export subsidies, we should use our DEIP program to the fullest possible extent, to help counteract the heavy dairy subsidy use of the European Union. We did not utilize this WTO-authorized program at all last year, nor has USDA used the program this year, despite dwindling milk prices. Dairy producers accepted a number of responsibilities as part of the U.S.'s WTO commitments; it is only fair that we be able to exercise the rights that agreement granted to us as well.

Let me also make a point about the relationship between the 2007 Farm Bill and the Doha Round of WTO negotiations. There is a "chicken and egg" dilemma that Congressional agricultural leaders must consider: namely, that it's hard to write the next farm bill with one eye on whether there will be a successful round of trade talks that is actually concluded and signed by the U.S. government in the next year or two. Both are important to America's dairy farmers; both represent opportunities as well as concerns.

We support a successful multilateral round of trade talks if it helps level the very uneven playing field in dairy export subsidies, tariff protections, and domestic support programs. But we won't support any final agreement that doesn't represent a net increase in our opportunity to better compete against our more heavily-subsidized and protected competitors in the EU, Canada and Japan, as well as more balanced trading opportunities with key developing countries.

Because of the uncertain nature of WTO discussions at the moment and the potential key role new WTO mandates could play in influencing the next Farm Bill, dairy producers would agree to extend the current Farm Bill, should Congress decide to take that step. If it would provide greater clarity to the authors of the next Farm Bill, Land O'Lakes would also support extending the same levels of funding that exist under the Farm Bill that is now scheduled to expire in 2007. Such an extension of funding not only will help preserve an appropriate level of baseline funding for agriculture, it will also give our trade negotiators additional leverage, and may hasten, not lengthen, the WTO negotiations process.

Further, I can tell you that if dairy farmers would have to decide today what our safety net should be for the next Farm Bill, we would support the continuation of the dairy price support program with or without a successful Doha round. We strongly disagree with those who claim that the price support program must be phased out or eliminated upon completion of the Doha Round.

Finally, let me touch back for a moment on the Dairy Producer Conclave process and the input we are seeking from our members about the next Farm Bill. One clear theme that emerged from the Conclave process is that America's dairy farmers see their future success as being impacted by more than just a narrow interpretation of what the Farm Bill should cover.

High on the list of priority concerns for dairy producers include:

- Science-based environmental regulations that focus on encouraging compliance rather than stressing harsh penalties;
- Comprehensive immigration reform like that contained in Senate Bill 2611, particularly its plan for agriculture, AgJOBS 2006;
- A mandatory national animal identification program.

Let me close by also mentioning the importance of another self-help program that dairy farmers fund, but this is one that was created by Congress in 1983: the 15 cent national dairy checkoff. 10 cents of that money goes to a qualified promotion program at the state or regional level and the other 5 cents goes to the National Dairy Board. The checkoff dollars are invested in research, promotion and in partnership with cooperatives, processors and other industry leaders to overcome the barriers to increased sales and consumption of dairy products.

To ensure that all that benefit from this greater demand for dairy products in the U.S. help to pay for it, Congress included in the 2002 Farm Bill a provision allowing collection of the dairy checkoff on dairy products imported to the U. S. Here we are four years later, and there still has not been any collection of the dairy checkoff on imported products. Our understanding is that until the checkoff assessment is applied to farmers in all 50 states, our trade negotiators feel that applying it to importers represents a potential trade violation. So, we need legislation to provide for the collection of the checkoff from dairy farmers in Alaska, Hawaii, and Puerto Rico – where there aren't many farms, but there is a handful - before the checkoff can be collected on imported dairy products.

Mr. Chairman, we need this additional legislation even now, before the 2007 Farm Bill. Other commodities that have checkoff programs assess imports, so this is a matter of basic fairness. We are seeing more dairy imports in our market, and they should not enjoy the benefits of our

\$270 million promotion program, and our enormous consumer market, without contributing to that effort.

In closing, I want to thank the Committee and Subcommittee for having this series of field hearings. We welcome you to our state and hope your short time here was enjoyable. I will be happy to answer any questions, or provide any additional information that you might want.